



FINANCIAL

“An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.”

—PriceWaterhouseCoopers LLP

Report of Independent Accountants

To the Teachers' Retirement Board
California State Teachers' Retirement System

In our opinion, based upon our audit and the report of other auditors, the accompanying combined statements of plan net assets and the related combined statements of changes in plan net assets present fairly, in all material respects, the plan net assets of the California State Teachers' Retirement System (System), a component unit of the State of California, as of June 30, 2000, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management; our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the System's 403(b) Program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on those financial statements is based solely on the report of the other auditors. We previously audited and reported on the financial statements of the System for the year ended June 30, 1999, the reporting entity totals of which are included for comparative purposes only. We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for the opinion expressed above.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules I and II is required under GASB Statement No. 25, *Financial Reporting For Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The supplemental information included in Schedules III through VI is presented for purposes of additional analysis and is not a required part of the financial statements. Such information as of and for the years ended June 30, 2000, 1999, 1998, 1997, 1996 and 1995, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion and based on the report of other auditors, is fairly stated, in all material respects, in relation to the financial statements taken as a whole from which it has been derived.



September 25, 2000

California State Teachers' Retirement System
Combined Statements of Plan Net Assets
As of June 30, 2000
With reporting entity totals as of June 30, 2000 and 1999
(Dollars in Thousands)

	State Teachers' Retirement Plan	403(b) Program	Reporting Entity Totals	
			2000	1999
Assets				
Investments, at fair value:				
Short-term	\$ 1,559,699	\$ 17,039	\$ 1,576,738	\$ 1,033,775
Debt securities:				
Domestic	27,236,000	691	27,236,691	25,109,914
International	22	36	58	11,639
Equities:				
Domestic	46,691,549	29,591	46,721,140	45,933,482
International	26,956,087	2,175	26,958,262	22,758,212
Alternative	5,105,654	-	5,105,654	2,581,794
Real estate	3,771,458	-	3,771,458	2,169,967
Securities lending collateral	16,107,099	-	16,107,099	15,516,345
Total investments	<u>127,427,568</u>	<u>49,532</u>	<u>127,477,100</u>	<u>115,115,128</u>
Cash	<u>3,234</u>	<u>-</u>	<u>3,234</u>	<u>1,932</u>
Receivables:				
Investments sold	1,941,810	204	1,942,014	521,274
Foreign currency exchange contracts	1,991,213	-	1,991,213	1,582,431
Interest and dividends	475,596	571	476,167	437,451
Member/employer and other	406,698	116	406,814	311,857
Total receivables	<u>4,815,317</u>	<u>891</u>	<u>4,816,208</u>	<u>2,853,013</u>
Other assets	<u>338</u>	<u>-</u>	<u>338</u>	<u>273</u>
Total assets	<u>\$ 132,246,457</u>	<u>\$ 50,423</u>	<u>\$ 132,296,880</u>	<u>\$ 117,970,346</u>
Liabilities				
Payable for investments purchased	\$ 1,116,018	\$ -	\$ 1,116,018	\$ 637,710
Payable for foreign currency exchange contracts	1,976,317	-	1,976,317	1,536,673
Benefits in process of payment	69,959	-	69,959	311,551
Other liabilities	195,376	42	195,418	147,141
Securities lending collateral	16,107,099	-	16,107,099	15,516,345
Total liabilities	<u>19,464,769</u>	<u>42</u>	<u>19,464,811</u>	<u>18,149,420</u>
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Schedule I)	<u>\$ 112,781,688</u>	<u>\$ 50,381</u>	<u>\$ 112,832,069</u>	<u>\$ 99,820,926</u>

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System
Combined Statements of Changes in Plan Net Assets
For the year ended June 30, 2000
With reporting entity totals for the years ended June 30, 2000 and 1999
(Dollars in Thousands)

	State Teachers' Retirement Plan	403(b) Program	Reporting Entity Totals	
			2000	1999
Additions				
Contributions:				
Members	\$ 1,532,380	\$ 13,792	\$ 1,546,172	\$ 1,433,331
Employers	1,590,891	-	1,590,891	1,476,228
State of California	939,232	-	939,232	350,175
Total contributions	<u>4,062,503</u>	<u>13,792</u>	<u>4,076,295</u>	<u>3,259,734</u>
Investment income:				
Net appreciation in fair value of investments	9,836,172	384	9,836,556	8,907,827
Interest, dividends and other investment income	2,860,459	2,732	2,863,191	2,875,811
Securities lending income	956,356	-	956,356	902,503
Less investment expenses:				
Cost of lending securities	(901,151)	-	(901,151)	(839,430)
Other	(61,252)	-	(61,252)	(44,974)
Net investment income	<u>12,690,584</u>	<u>3,116</u>	<u>12,693,700</u>	<u>11,801,737</u>
Other income	<u>166</u>	<u>-</u>	<u>166</u>	<u>115</u>
Total additions	<u>16,753,253</u>	<u>16,908</u>	<u>16,770,161</u>	<u>15,061,586</u>
Deductions				
Retirement, death and survivor benefits	3,435,268	250	3,435,518	3,145,479
Refunds of member contributions	80,046	2,201	82,247	76,229
Purchasing power benefits	190,478	-	190,478	197,860
Administrative expenses	50,500	275	50,775	45,630
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>42</u>
Total deductions	<u>3,756,292</u>	<u>2,726</u>	<u>3,759,018</u>	<u>3,465,240</u>
Net increase	12,996,961	14,182	13,011,143	11,596,346
Net assets held in trust for pension benefits:				
Beginning of year	<u>99,784,727</u>	<u>36,199</u>	<u>99,820,926</u>	<u>88,224,580</u>
End of year	<u>\$ 112,781,688</u>	<u>\$ 50,381</u>	<u>\$ 112,832,069</u>	<u>\$ 99,820,926</u>

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans and a tax-deferred supplemental program, as described below, established and administered by those sections of the State Education Code known as the Teachers' Retirement Law (Section 22000 et. seq.), as amended and enacted by the State of California (State) Legislature. The System is a component unit of the State of California. These financial statements include only the accounts of the System. The System's financial statements are included as a trust fund in the financial statements of the State of California. The System provides pension benefits to California full-time and part-time public school teachers from preschool through grade fourteen and certain other employees of the public school system.

State Teachers' Retirement Plan (STRP)

Effective January 1, 1999, Senate Bill (SB) 2085 authorized the merger of the System's Cash Balance Plan (CB Plan) and the Defined Benefit Plan (DB Plan) to establish the State Teachers' Retirement Plan (STRP). SB 2085 provides, among other things, that both the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CB Benefit Program) shall be administered under the Teachers' Retirement Law and be known and cited as the STRP.

Defined Benefit Program (DB Program)

The DB Program, is a defined benefit pension plan which operates under the Internal Revenue Code (IRC). At June 30, 2000, there were approximately 1,160 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is a non-employer contributor to the STRP. Membership is mandatory for all employees meeting the eligibility requirements. At June 30, 1999, membership consisted of:

Active members:	
Vested	234,727
Nonvested	167,493
Inactive members	69,112
Retirees and benefit recipients	161,457
Total members, retirees and beneficiaries	<u>632,789</u>

Information as of June 30, 2000, will not be available until November 2000.

The DB Program provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. Benefit provisions include:

- After five years of credited California service, members become 100% vested in retirement benefits earned to date. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2% of final compensation for each year of credited service. Retirements after age 60 are subject to a factor which increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service shall receive an additional 0.2% of final compensation. In no event shall the total benefit factor exceed 2.4%.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

Final compensation is defined as the highest average annual compensation earnable during either any three consecutive years of credited service, or for classroom teachers, twelve consecutive months if the employer elects to pay the additional cost. Early retirement options are available at age 55 or as early as age 50 with 30 years of credited service.

- After five years of credited California service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50% of final compensation plus 10% of final compensation for each eligible child, up to a maximum addition of 40%. The member must have a disability that will exceed a period of twelve or more months to qualify for a benefit.
- A family benefit is available if an active member died and had at least one year of credited service.
- Members' accumulated contributions are refundable with interest upon separation from the System. The 1999-2000 fiscal year rate of interest credited to members' accounts is 5%.

Purchasing power protection is provided to those benefit recipients whose purchasing power has been reduced below certain levels. The purchasing power protection is funded by a combination of School Lands Revenue and Supplemental Benefit Maintenance Account (SBMA) contributions. School Lands Revenue is appropriated pursuant to Public Resources Code Section 6217.5 from the use of school lands. The Cecil Green/William Campbell/Dave Elder Act of 1989 (Education Code Section 22954) established the SBMA to provide annual distributions (in quarterly payments) to retired and disabled members, and beneficiaries in order to restore purchasing power to a minimum of 68.2% of the initial monthly allowance. The Mrs. Ruth Q. dePrada Pension Protection Act, SB 1026, Chapter 939, Statutes of 1997 increased the minimum purchasing power to 75%, effective January 1, 1998. The State's contributions for the year ended June 30, 2000, were sufficient to meet the purchasing power obligations.

Required Contributions

Required member and employer contribution rates are set by the Teachers' Retirement Law. Required contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. The System also uses the level percentage of payroll method to calculate the amortization of any unfunded liability.

A summary of statutory rates and other sources of contributions to the System is as follows:

Members	- 8% of applicable member earnings
Employers	- 8.25% of applicable member earnings

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

State of California - The enactment of SB 1370 (Ed. Code Section 22955), known as the "Elder Full Funding Act," provides for eventual full funding for the System. The provisions of the bill which became effective July 1, 1990, replaced the prior State contribution with a new funding mechanism beginning July 1, 1991. The State's annual contribution to the System was 4.3% of the previous calendar year's member payroll. Subsequent to achieving a fully funded System, the State will contribute only the amount necessary to help fund the normal cost of the then current benefit program unless a subsequent unfunded obligation occurred.

The enactment of Chapter 967, Statutes of 1998 (AB 2804) provided for funding from the State General Fund (General Fund) to maintain the fully funded status of benefits in place as of July 1, 1990, and provided funding for benefit enhancements enacted effective January 1, 1999. The provisions of Chapter 967 amended the State's contribution requirements under the Elder Full Funding Act.

Beginning July 1, 1999, under Education Code Section 22955, the General Fund shall transfer annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements effective January 1, 1999. However, the actuaries for the DB Program determined that the contribution rate needed to fund the January 1, 1999, benefit enhancements is approximately 4.256%. The difference is being funded by the current actuarial surplus and an additional contribution of 0.25% of applicable member earnings from employers. Management believes that the assets available on an actuarial basis and the additional employer contributions will be sufficient to fund the increased actuarial accrued liability.

Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year was established under Education Code Section 22955. This contribution is reduced to zero if there is no unfunded obligation or normal cost deficit. As of the June 30, 1999, actuarial valuation, there was no unfunded obligation or normal cost deficit for benefits in place as of July 1, 1990.

In their most recent actuarial valuation as of June 30, 1999, the System's independent actuaries determined that, at June 30, 1999, the actuarial value of the DB Program's assets exceeded the program's actuarial accrued liability by \$3.7 billion. Based on this valuation, the current statutory contributions are equivalent to 19.260% of covered payroll and the normal cost is 15.664% of covered payroll. Certain risks related to the global financial markets may affect the fair value of the System's investment portfolio. The System's management is continually evaluating the impact of market fluctuations on the funded status of the DB Program. Such estimates could change in the near future.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

Cash Balance Benefit Program (CB Benefit Program)

The CB Benefit Program, established under Part 14 of the California Education Code (Section 26000 et seq.) and subsequently amended by Assembly Bill (AB) 2673, is a separate defined benefit plan. The CB Benefit Program operates under the IRC within the STRP and is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position.

Participation in the CB Benefit Program is optional to school districts, community college districts, county offices of education and regional occupational programs. If a school district, community college district, county office of education, or regional occupational program elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the program, unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer.

A summary of statutory contribution rates for the CB Benefit Program is as follows:

Members	-	4% of applicable member earnings
Employers	-	4% of applicable member earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2000, there were twenty contributing school districts and approximately 9,500 contributing members.

At June 30, 1999, the actuarial value of the CB Benefit Program's assets exceeded the program's actuarial accrued liability by approximately \$223,000.

STRS 403(b) Program (403(b) Program)

The 403(b) Program was authorized pursuant to Chapter 291, State Statutes of 1994 and meets the requirements of IRC Section 403(b). The 403(b) Program plan is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary and are not subject to a minimum limitation, however, the IRC establishes a maximum amount that can be contributed annually. At June 30, 2000, there were approximately 2,300 plan members and approximately 250 participating employers (school districts).

An agreement was entered into between the System and State Street Bank and Trust Company (SSB) on January 1, 1995, to appoint SSB as third-party administrator, record keeper and master custodian for the 403(b) Program assets. The appointment will expire on July 1, 2001. The investments are comprised of the money market, S&P 500, international index, self-managed and participant notes funds.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting records of the System are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with System's retirement program.

Use of Estimates in the Preparation of Financial Statements

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and when applicable, disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Investments

The majority of the securities held in the investment portfolio at June 30, 2000, are in the custody of or controlled by SSB, the System's master custodian. State statutes and Board policies allow investments consisting of government, corporate and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages and other investments.

All investments are reported at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, fair value is computed by management based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values are based on either recent estimates provided by the System's contract real estate advisors or independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates fair value. Alternative Investments represent investments in private equity partnerships in which the System enters under a limited partnership agreement. For alternative investments and other investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

The System presents, in the combined statements of changes in plan net assets, the net appreciation in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation and depreciation on those investments. Purchases and sales of debt securities, equity securities and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

There are certain market risks, credit risks, foreign currency exchange risks, or event risks which may subject the System to economic changes occurring in certain industries, sectors or geographies.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

Foreign Currency Exchange Contracts

The STRP enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of foreign investments. These foreign currency exchange contracts are reported at fair value based on published market prices and quotations from major investment firms. The STRP could be exposed to risk if the counter-parties to the contracts are unable to meet the terms of their contracts. The STRP seeks to minimize risk from counter-parties by establishing minimum credit quality standards and maximum credit limits.

Administrative Expenses

The 403(b) Program reimburses the STRP for administrative services provided on its behalf.

Income Taxes

The STRP is organized as a tax-exempt retirement plan under the IRC. The 403(b) Program is organized as a tax-deferred supplemental program under the IRC. The System's management believes that it has operated within the constraints imposed by federal tax law.

Investment Expenses

Expenses directly associated with investment management have been included as other investment expenses. Indirect expenses have not been allocated.

Securities Lending Transactions

The System reports securities lent, the cash collateral held as assets and the related liabilities resulting from securities lending transactions on the combined statements of plan net assets. The System also reports the costs of lending securities as investment expenses on the combined statements of changes in plan net assets.

New Accounting Pronouncements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB 34 provides a financial reporting model for governmental entities that addresses four basic reporting elements: management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements, and required supplementary information. The System is required to implement GASB 34 for the year ending June 30, 2002.

3. Investments

The System's investments are categorized below to give an indication of the category risk level assumed by the System at June 30, 2000, as defined by GASB Statement No. 3. Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent but not in the System's name. Investment pools managed by other governments, investments held by broker-dealers under securities loans, alternative investments and real estate equity investments are not categorized.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

The following table presents investments held by the STRP, by type, at June 30, 2000 (in thousands):

Investment Type	Category 1	Category 2	Category 3	Category Rating Not Required	Fair Value
Categorized:					
Short-term investments	\$ 1,324,863	\$ -	\$ -	\$ 234,836	\$ 1,559,699
Debt securities	19,655,689	-	-	-	19,655,689
Equity securities	64,650,523	-	-	-	64,650,523
Securities lending collateral	16,107,099	-	-	-	16,107,099
Not categorized:					
Alternative investments	-	-	-	5,105,654	5,105,654
Real estate equity investments	-	-	-	3,771,458	3,771,458
Investments held by broker-dealers under securities loans:					
Debt securities	-	-	-	7,580,333	7,580,333
Equity securities	-	-	-	8,997,113	8,997,113
Total investments	<u>\$101,738,174</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$25,689,394</u>	<u>\$127,427,568</u>

Short-term investments of the STRP as of June 30, 2000, are comprised of the following (in thousands):

Surplus Money Investment Fund (State of California)	\$ 234,836
Commercial paper	666,989
Short-term agencies	415,842
Repurchase agreements	896
Bankers acceptance	25,000
Certificates of deposit	160,944
Treasury bills	3,388
Foreign currency	51,804
	<u>\$1,559,699</u>

The STRP's investment in the Surplus Money Investment Fund (SMIF), administered by the State, represents various investments with average days to maturity of approximately 200 days, and is reported at amortized cost which approximates market value.

The STRP's repurchase agreement transactions at June 30, 2000, have underlying collateral with market values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yield is 5.25% with maturity dates through July 3, 2000.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment.

California State Teachers' Retirement System

Notes to General Purpose Financial Statements

State statutes and Teachers' Retirement Board policies permit the STRP to lend its securities to broker-dealers and other entities for which collateral is received with a simultaneous agreement to return the collateral for the same securities in the future. STRP has contracted with third party securities lending agents to lend domestic and international equity and debt securities. All securities loans can be terminated on demand by either STRP or the borrower. Collateral in the form of cash or other securities is required for 102% and 105% of the fair value of domestic and international securities, respectively, loaned. As of June 30, 2000, the System has no credit risk exposure to borrowers because the amounts the STRP owes the borrowers exceed the amounts the borrowers owe the System. Cash collateral is invested in short-term investments, which at year-end have a weighted-average maturity of less than 90 days, and the assets held as collateral are presented in the above table of investments held. STRP is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify STRP if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay STRP for income distributions by the securities' issuers while the securities are on loan.

403(b) Program

Investments held by the 403(b) Program are in mutual funds and are not required to be categorized by risk levels under GASB Statement No. 3.

4. Contingencies

The STRP is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these litigations is not expected to have a material adverse effect on the STRP's financial position.

5. Commitments

In conjunction with the purchase of various partnership interests, the STRP has remaining funding commitments of approximately \$3.9 billion at June 30, 2000.

The STRP has entered into agreements to guarantee payment of principal and interest in the event that the primary obligator defaults. The STRP is paid a fee over the term of such agreements, and in the event of default, the STRP could draw on the standby letter-of-credit for repayment. At June 30, 2000, the STRP has commitments of approximately \$1.1 billion expiring through May 18, 2006. Fee income earned by the STRP was approximately \$2.8 million for the year ended June 30, 2000.

Supplemental Information

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Funding Progress
June 30, 2000

Schedule I

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
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Defined Benefit Program ⁽³⁾ (dollars in millions):

2000	(1)	(1)	(1)	(1)	(1)	(1)
1999	\$ 90,001	\$ 86,349	\$ (3,652)	104 %	\$ 17,185	(21) %
1998	77,290	74,234	(3,056)	104 %	15,741	(19) %
1997	67,980	69,852	1,872	97 %	14,521	13 %
1996	(2)	(2)	(2)	(2)	(2)	(2)
1995	55,207	63,391	8,184	87 %	12,688	65 %

Cash Balance Benefit Program ⁽³⁾ (dollars in thousands):

2000	(1)	(1)	(1)	(1)	(1)	(1)
1999	\$ 5,224	\$ 5,001	\$ (223)	104 %	\$ 50,426	0 %
1998	790	1,728	938	46 %	18,838	5 %
1997	(393)	164	557	(240) %	4,504	12 %

- (1) The 2000 actuarial reports will be available during the year ended June 30, 2001.
- (2) Prior to June 30, 1998, no actuarial reports were prepared in even numbered years. No estimation using actuarial methodology was made in years between valuations.
- (3) Effective January 1, 1999, the Defined Benefit Plan (DB Plan) and the Cash Balance Plan (CB Plan) merged to establish the State Teachers' Retirement Plan which includes the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CB Benefit Program). All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers and Other Contributing Entities
For the Year Ended June 30, 2000 **Schedule II**

Year Ended June 30	Annual Required Contribution (a)	Contributed By Employers ⁽¹⁾ (b)	Contributed By the State ⁽²⁾ (c)	Total Contributed (b + c)	Percentage Contributed (b + c)/a)
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Defined Benefit Program ⁽³⁾ (dollars in millions):

2000	\$ 1,150	\$ 1,584	\$ 519	\$ 2,103	183%
1999	1,473	1,492	209	1,701	115%
1998	1,911	1,419	587	2,006	105%
1997	1,835	1,299	555	1,849	101%
1996	1,726	1,196	530	1,726	100%
1995	1,589	1,111	519	1,630	103%

Cash Balance Benefit Program ⁽³⁾ (dollars in thousands):

2000	\$ 2,365	\$ 2,365	\$ -	\$ 2,365	100%
1999	1,561	1,561	-	1,561	100%
1998	772	772	-	772	100%
1997	74	74	-	74	100%

- (1) For DB Program, years ended June 30, 1998 and earlier, amounts include employer contributions under Education Code Sections 22950 to 22953. For the years ended June 30, 1999 and thereafter, amounts include employer contributions under Education Code Sections 22950 and 22951. For the year ended June 30, 2000, amount includes employer contributions under Education Code Sections 22135, 22714 (less amounts deposited in the SBMA) and 22718.
- (2) For DB Program, includes state contributions under Education Code Section 22955.
- (3) Effective January 1, 1999, the DB Plan and the CB Plan merged to establish the STRP which includes the DB Program and the CB Benefit Program. All actuarial data prior to year ended June 30, 1999, relates to the DB Plan and CB Plan.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers and Other Contributing Entities
For the Year Ended June 30, 2000 **Schedule II (Continued)**

The information presented in the Supplemental Schedules I and II was determined as part of the actuarial valuations at June 30, 1999. Additional information is as follows:

	DB Program	CB Benefit Program
Actuarial Cost Method	Entry age normal	Traditional Unit Credit
Amortization Method	Level percent of payroll	Not applicable
Amortization Period	Open	Not applicable
Remaining Amortization Period	Not applicable	Not applicable
Asset Valuation Method	Expected value with 33% adjustment to market value	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.50%	3.50%
Post-retirement benefit increases	2.00% simple	Not applicable

The above assumptions for the DB Program were changed from those used for the previous actuarial valuation (June 30, 1998) as follows:

- Asset valuation method adjustment to market value increased from 25% to 33%
- Projected salary increases reduced from 5.5% to 4.25%
- Consumer price inflation reduced from 4.5% to 3.5%

The effect of these changes in the assumptions underlying the June 30, 1999 valuation decreased the unfunded actuarial accrued liability of the DB Program by approximately \$5.816 billion, resulting in an actuarial surplus of approximately \$3.652 billion as of June 30, 1999.

The above assumptions for the CB Benefit Program were changed from those used for the previous actuarial valuation (June 30, 1998) as follows:

- Investment rate of return increased from 6.5% to 8%
- Projected salary increases reduced from 5.5% to 4.25%
- Consumer price inflation reduced from 4.5% to 3.5%

The changes in assumptions underlying the June 30, 1999 valuation had no significant effect on the actuarial surplus of the CB Benefit Program.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Administrative Expenses
For the Year Ended June 30, 2000
(Dollars in Thousands)

Schedule III

Personal services:	
Salaries and wages	\$ 22,404
Staff benefits	4,273
Accrued vacations	648
Total personal services	<u>27,325</u>
Operating expenses and equipment:	
General expense	468
Depreciation expense	64
Printing	790
Communications	645
Postage	684
Insurance	10
Travel	229
Training	177
Facilities operations	3,022
Consultants and professional services	4,480
Consolidated data center:	
Consultants and professional services	3,708
Data processing:	
Consultant and professional services	7,161
Software and other	269
Central administrative services	1,630
Equipment	157
Other	117
Total operating expenses and equipment	<u>23,611</u>
Total current year expenses that are budgeted	50,936
Past prior year expenses, net	<u>(436)</u>
Total	<u>\$ 50,500</u>
Fund sources:	
SBMA/administration expense	\$ 63
Reimbursements	577
Revenue	25
Refunds to reverted appropriation	1
Budget Act, Chapter 282, Statutes 1997	(19)
Reappropriated Chapter 282, by Chapter 324/98	285
Budget Act, Chapter 324, Statutes 1998	(154)
Reappropriated Chapter 324, by Chapter 50/99	600
Budget Act, Chapter 50, Statutes 1999	48,513
Legislation, Chapter 740, Statutes 1999	171
Legislation, Chapter 632, Statutes 1999	438
Total fund sources	<u>\$ 50,500</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2000
(Dollars in Thousands)

Schedule IV

External equity managers:

Domestic:

Ariel Capital Management	\$ 1,055
Barclays Global Investors	742
Brison Partners	337
Brown Capital Management Inc.	350
Chicago Equity Partners	607
Delaware Investment Advisors	458
Delphi Management, Inc.	666
Denver Investment Advisor Inc.	2,404
DSI International Management	252
First Quadrant	440
Mellon Capital Management	311
NCM Capital Management Group Inc.	366
Putnam Investments	327
Sasco Capital, Inc	506
State Street Bank Global Advisors	253
TCW Asset Management	1,187
Total domestic	<u>10,261</u>

International:

Bank of Ireland	2,459
Baring International Investments Ltd.	338
Barclays Global Investors	1,981
Battery March	508
Blackrock International Ltd.	580
Brinson Partners	1,179
Capital Guardian Trust	5,063
Deleware International Trust	257
Fidelity Management Trust Co.	115
Fiduciary Trust International	1,987
Invesco	235
Lazard Freres Asset Management	2,640
Marvin & Palmer Associates Inc.	1,628
Morgan Stanley	1,622
Newport Pacific Management	862
Nicholas Applegate	1,203
Oechsle International Advisors	3,337
Schroder Capital Management Investment, Ltd.	2,183
Scudder Kemper	2,321
State Street Global Advisors	1,173
Total international	<u>31,671</u>
Total external equity managers	<u>41,932</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
For the Year Ended June 30, 2000
(Dollars in Thousands)

Schedule IV (Continued)

Real estate managers/advisors:	
CB Richard Ellis	3,339
Clarion Partners	155
Lend Lease	3,543
MIG Realty Advisors, Inc.	3,024
SSR Realty Advisors	2,759
Sentinel Realty Advisors	24
Total real estate managers/advisors	<u>12,844</u>
Advisors and consultants:	
Callan Associates	59
KPMG LLP	120
The McMahan Group	187
William M Mercer Invest. Consulting, Inc.	40
Pathway Capital Management, LLC	1,163
Pension Consulting Alliance	606
Total advisors and consultants	<u>2,175</u>
Attorneys, master custodian and insurers:	
Blank, Rome, Comiskey and McCauley	3
Cox, Castle & Nicholson	5
Groom Law Group	23
Near North Insurance Brokerage	220
State Street Bank & Trust Co.	3,646
Total attorneys, master custodian and insurers	<u>3,897</u>
Other Expenses:	
State Controller's Office	15
State Personnel Board	9
Miscellaneous	234
Travel	146
Total other expenses	<u>404</u>
Total continuous appropriations	<u>\$ 61,252</u>

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2000
(Dollars in Thousands)

Schedule V

Individual or Firm	Commission/ Fee	Nature of Service
Consulting and professional services:		
Alameda County Office of Education	\$ 70	Regional Counseling Services
Annette Knous Wimmer	45	Consulting Services
Azusa Pacific University	10	Medical Reimbursement
Bay Brook Medical Group, Inc.	36	Vocational Assessments and Reports
California Department of General Services	18	Hearing Office Charges
Campbell Union High School District	105	Regional Counseling Services
Contra Costa County Office of Education	69	Regional Counseling Services
Cooperative Personnel Services	57	Consulting Services
Department of Justice	391	General Services Legal Fees
Department of Personnel Administration	13	Legal Services
Dr. Lindle Hatton	11	Consulting Services
Fresno County Office of Education	62	Regional Counseling Services
HG Consulting Group, Inc.	34	Consulting Services
Hogan & Hartson	160	Advocate and Legal Representation
Kathleen M. Ogburn	14	Vocational Assessments and Reports
Kern County Supt. of Schools	56	Regional Counseling Services
Law Office of Carroll & Scully	18	Legal Services
Liebman & Associates	59	Vocational Assessments and Reports
Linville Associates	11	Vocational Assessments and Reports
Los Angeles County Office of Education	241	Regional Counseling Services
Los Angeles County Supt. of Schools	350	Regional Counseling Services
Macias, Gini & Company LLP	36	Consulting Services
Merced County Office of Education	17	Regional Counseling Services
Milliman & Robertson, Inc.	189	Actuarial Services
MSLA, A Medical Corporation	43	Vocational Assessments and Reports
Orange County Department of Education	119	Regional Counseling Services
PricewaterhouseCoopers LLP	65	Audit and Consulting Services
San Bernardino County	163	Regional Counseling Services
San Diego County Office of Education	133	Regional Counseling Services
San Joaquin County Office of Education	59	Regional Counseling Services
San Juan Unified School District	129	Regional Counseling Services
San Mateo-Foster City School District	68	Regional Counseling Services
Santa Barbara County Office of Education	54	Regional Counseling Services
Santa Cruz County Office of Education	45	Regional Counseling Services
Shasta County Office of Education	74	Regional Counseling Services
Sonoma County Supt. of Schools	49	Regional Counseling Services
State Controller's Office	799	Various Financial Services
Superior Rehabilitation Services	36	Vocational Assessments and Reports
Szeroy McCall	15	Consulting Services
Travel/Tuition	63	Medical Reimbursement
Tulare County Supt. of Schools	25	Regional Counseling Services

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
For the Year Ended June 30, 2000
(Dollars in Thousands)

Schedule V (Continued)

Ventura County Supt. of Schools
William M. Mercer, Inc.
Other

\$ 41
224
204
4,480

Regional Counseling Services
Consulting Services
Various Services under \$10

Data processing:

Compucom Systems, Inc.
Computer Resources Group, Inc.
Information Technology
Nanran, Inc.
Net Incomm Inc.
New Boston Technical Services
Pilot Computer Services, Inc.
Science Applications
Software AG of N.A., Inc.
SPL Worldgroup Consulting
Synergy Consulting, Inc.
Visionary Integration
Visual Communications
Other

44
70
155
670
273
137
268
104
355
3,314
321
1,373
42
35
7,161

Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing
Data Processing

Consolidated Data Center:

Stephen P. Teale Data Center
California Health & Human Services

3,693
15
3,708

Data Processing
Data Processing

Total consultant and professional
services expenses

\$ 15,349

California State Teachers' Retirement System
403(b) Program
Schedule of Administrative Expenses
For the Year Ended June 30, 2000
(Dollars in Thousands)

Schedule VI

State Street Bank administrative fees	\$ 255
State Teachers' Retirement Plan sponsor fee	<u>20</u>
Total	<u>\$ 275</u>

